RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

October 31, 1990 **LETTER 1055**

Oct. 19 DJIA 2520.79; PTI 3185; A-D Ratio -17.75
Oct. 26 DJIA 2436.14; PTI 3169; A-D Ratio -18.13
Dow Yield: 4.17%; Dow P/E: 12.0; DowPow: -1014
Dow 200-day MA: 2698; Dow 30-day MA: 2478
Dow Book Value: 1276; PTI 89-day MA: 3238
Percentage of Undervalued Blue-chips: 35%

A PREDICTION: Basically, I distrust predictions. And I don't remember ever starting a Letter out this way, but here goes. I'm getting a "feel" for this bear market, and my feeling (call it instinct) runs as follows -- this is not going to be a quick, decisive, well-defined, "easy" bear market like 1973-74. It's going to be a difficult, deceptive, costly bear market lasting for years. The early stages will be erratic, interminably extended, and unclear, with many arguing as to whether it is or isn't a bear market (the same arguments are going on as to whether the country is or isn't in recession). But as time passes, the bear market will become more and more pronounced and increasingly vicious. Finally, like a thief in the night, the bear will take over and be in complete command. Near the end, observers will wonder how they ever doubted or ignored the early signs and signals.

In case you don't remember, the early signs and signals of this bear market were: (1) the 1987 crash, (2) the lesser 1989 crash, (3) the vicious 1989-90 collapse of the Transportation Average, (4) the smash in the NYSE Financial Index during 1990, (5) the Dow Theory bear market signal of January 25, 1990, (6) the collapse in breadth from 1987 to the present, (7) the persistent decline in margin accounts on the NYSE, and finally (8) the long and costly slide in the more comprehensive stock averages such as the Value Line and the Wilshire.

THE MARKET: In the last Letter, I noted that the rate of descent of stocks and the averages in this bear market had been too rapid and that sideways or corrective action was needed. On October 17, the advance-decline ratio broke to new bear market lows, as did the D-J Transportation Average. Industrials, however, refused to confirm. This non-confirmation in an oversold market set the stage for a reversal, and October 18 saw the Dow bounce up 43 points while the Transports tacked on 20. This was followed by a two-day surge which boosted the Dow by another 130 points. Breadth, however, was not impressive on any of the rallying days.

MOVING AVERAGES: In Letter 1053, I wrote a section on the Dow and its moving averages. I also included a few quotes from E. George Schaefer to the effect that one should learn everything possible about the Dow and its relationship to its own 200-day moving average.

One of the valuable facets of this relationship is that it will often indicate when the Dow is near a turn. It can do this simply by showing extremes of rallying or declining action.

For instance, on the week of October 11, the 200-day moving average of the Dow was at 2719 -- but the Dow had plunged to 2365. This meant that the Dow had dropped a huge 354 points or 13% below its 200-day MA. Anytime the Dow is 10% or more above or below its 200-day MA, a strain is created. At 13% below its MA, the Dow can be likened to a rubber band that is stretched to the breaking point. And that's exactly the condition the market was in during early October. This strained relationship between the Dow and its own 200-day MA was one of the main reasons why I wrote the "Overdoing It On the Downside" section in the last Letter.

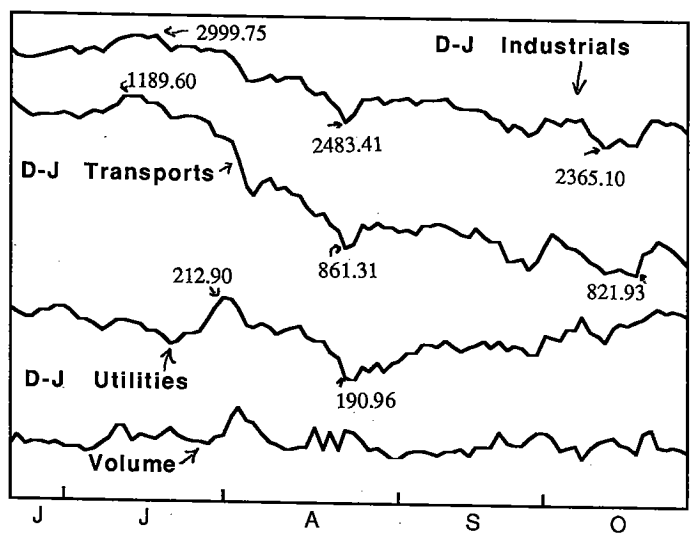
TIRED OF SINKING: By mid-October, following a crushing collapse, the market was simply tired of going down. On top of that, the T-bonds and Utilities were both rallying (see comments in the last Letter). So all of this pointed to the logic of some kind of rally in the making. On October 18, the bear decided to take a rest.

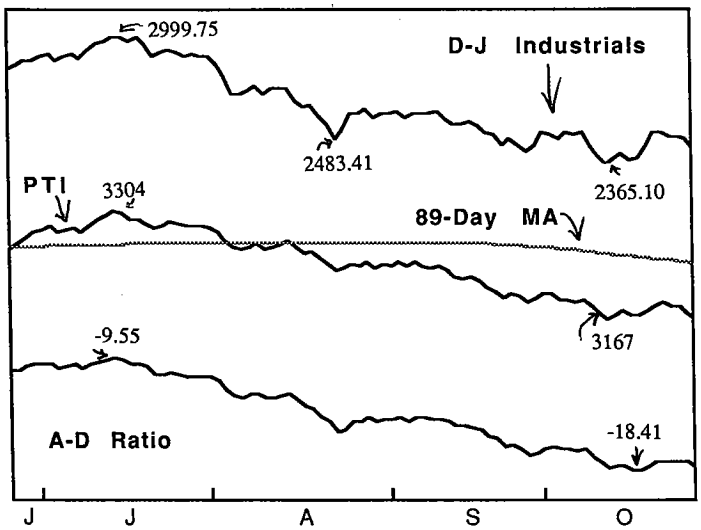
BEAR MARKET RALLIES: I want to caution subscribers to the fact that bear market rallies are technical in nature -- they do not reflect better fundamentals or improving business conditions. A bear rally materializes when the market has simply plunged too far on the downside -- when there's too much downside compression. Thus, a bear market rally acts as a safety valve for the market boiler. Too much downside compression, and the valve releases the pent-up steam in the form of a (usually violent) market rally.

ALL-MARKET INDEX: Consider the following. I run a study in which I treat all the stocks on all three exchanges as one big unified market. To do this, each day I add the advances on the NYSE, the AMEX, and the NASDAQ, and subtract the declines on all three exchanges. The resulting plurality shows me what's happening to the entire spectrum of US stocks. I call this my "All-Market Index" or AMI. AMI is important because it portrays the full effect or force of the primary trend on the market.

A market rally ended last June 4 with AMI at plus 9,292. By October 17, 96 trading days later, AMI was down to minus 37,665, a loss of 46,957. That means that over 96 days of bear market action there was an astounding plurality of 46,957 declines in all stocks -- or a daily average during those 96 days of 489 declines over advances. That constitutes one of the worst periods of market action I have ever seen.

CRACK INDEX: Along these same lines, my old and very innovative friend, Joe Granville (I've been exchanging reports with Joe for 29 years) has come up with what he calls his "Crack Index." This is an advance-decline line based on all 25 indices listed in the "Stock Market Data Bank" on page 2, section C, of the *WSJ*. Says Joe (and I agree fully), "Those 25 indices are so all





embracing, there isn't enough money anywhere to manipulate those indices. Every one of these readings tells you we are in a major bear market. In terms of a football field measured from greed to fear, we are only at the 50 yard line." Joe's Crack Index, by the way, has been making new lows. It's a very basic measure of total market action.

PROBLEMS: If the market's rallying, why can't I make money? That's a question I hear repeatedly. And my answer is -- it's very hard to make money in a bear market rally (unless you're a floor trader). First, bear rallies often gap stocks up at the opening. That means you are very likely to buy at the high during an explosive opening.

Example: GM opens up at 39, having gapped up 2 points over the previous day's close. You step in and buy GM at 39. It hovers there all day, then sells off with the market and closes at 38. You've begun to sweat, and you're thinking, "Gad, I was suckered in. I own GM at a loss in a bear market, and maybe the rally is over already." That night you toss and turn and lose four hours of much-needed sleep. The next day the market opens lower. You panic and dump GM for a 1 1/2 point loss plus commissions. It doesn't have to happen that way, but that's a typical experience if you buy a stock in a bear market rally.

Let me put it this way. I've watched investors and traders operate over the past 45 years and 80% of the time I've seen them lose when they short stocks during a bull market or when they buy stocks during a bear market. In both cases, they're operating AGAINST the primary trend.

CONCLUSION: Secondary movements (corrections) AGAINST the primary trend are often violent, often deceptive, often nerve-wracking. Bull market corrections exist for the purpose of shaking out the weak hands and keeping the "Nervous Nellies" on the sidelines. Conversely, bear market rallies exist for the purpose of decimating the short sellers while luring in hoards of new hopefuls.

INFLATION or DEFLATION? Gold and the metals along with most commodities have been hit and hit hard. Consider this, the stock market has been deflating, the dollar has been deflating, real estate has been deflating, gold and the metals have been deflating, and commodities across the board from wheat to corn to lumber have been deflating.

And incredibly, all this occurred IN THE FACE OF A POSSIBLE WAR and in the face of a DOUBLING OF THE PRICE OF OIL. Normally, at the mere hint of war, prices of commodities and everything else will head for the skies. So what's happening? What are the price collapses in commodities, the decline in home prices, the dive in gold, the contraction in the money supply telling us? What it is telling us is that there's been a terrific squeeze on the growth of the money supply (I've shown charts of this phenomenon in many previous Letters) and deflation is in the air.

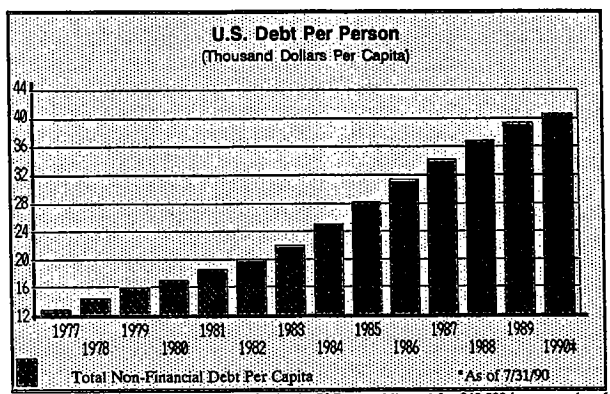
DEFLATION: This contraction to literally negative money growth has set off deflationary forces. Furthermore, the banks have been pulling back on their lending, thereby drying up liquidity. And on top of that we have seen two of our main sources of outside liquidity cut off -- and I'm referring to money from Japan and Germany. The squeeze has been on for many months, and much of it has come from the anti-inflationary policies of the Fed.

What if deflation really takes over in the US? Deflation makes it harder to earn money, deflation shrinks the price of everything from inventory values to land values to crop values to real estate. But worst of all, deflation makes a little hill of a debt look like a mountain. **Debt's absolute worst enemy is deflation.** And that's one of the things that worries the market at this time.

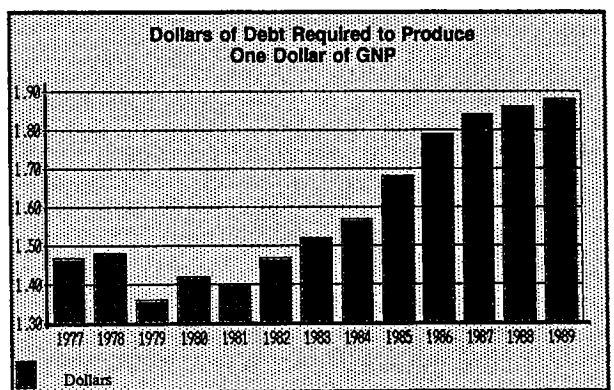
If deflation does come in full force, the US economy is going to be rocked back on its heels. In the face of deflation and recession, the Fed, the Treasury and Congress will give up on the dollar (in truth, it appears they have already), and they'll fight deflation and recession tooth and nail. At some point the Fed will drop interest rates and try to balloon the money supply. When they do that gold will have its day and the dollar will collapse. Until that time, simply view your gold as a core part of a diversification program.

INFLATION: But what about the forces of inflation? Here,in 1990, we have experienced our third oil-price surge. After each of the previous oil shocks, the Fed has moved to offset the effects of the "oil price squeeze" with massive injections of liquidity (Fed credit). Will Mr. Greenspan follow this same path again? Will he open the floodgates of credit in an attempt to float the US economy out of its current recession and liquidity crunch? If Greenspan does follow that path, expect to see (1) gold move considerably higher, (2) the dollar slump to new all-time lows, (3) US interest rates shoot near or even above record highs, (4) the stock market become extremely erratic as it's buffeted by the opposing forces of inflation and deflation.

Here are two charts that go a long way toward explaining the current situation. The first presents a picture of the biggest debt explosion in world history, and I'm talking about the US during the decade of the 1980s.



As of July, each man, woman, and child in the U.S. was obligated for $40,522 in accumulated debt. Debt obligations have more than tripled since 1977.

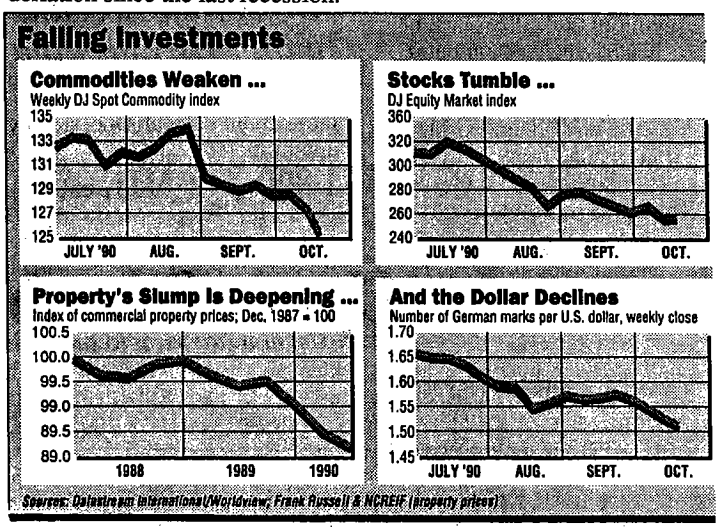


It now requires 41 cents more in new debt to produce a dollar of GNP than it did in 1977. At what point will debt no longer support GNP growth? What happens if debt stops growing?

The second chart portrays a fascinating and ominous phenomenon. It shows that each year it takes an increasing amount of debt to produce one dollar of GNP. The implication here is that it will now require an enormous new build-up of debt in order to pull the US out of its current stagnant quagmire. Frankly, I don't know exactly how much new debt will be needed or whether a massive amount of debt can be generated -- remember, the banks are still staggering under the debt load (much of it bad debt) that they are carrying.

Question -- even if prodded by the Fed, will the banks make the big loans, the loans needed to even begin to turn this economy around? I wonder (charts above courtesy of *Commodity Information Systems*, PO Box 690652, Houston, TX 77269).

This chart from the *WSJ* (Oct. 18) indicates that even the *Journal* senses deflation in the current picture. The piece begins as follows: "The air is slowly leaking out of all kinds of investments, from stocks to silver to real estate, giving the markets their first whiff of deflation since the last recession."



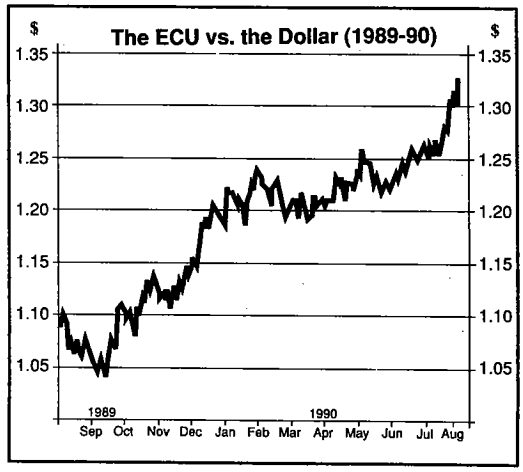
CONCLUSION: a deflationary squeeze is on, and the primary trend of the market is bearish. We are nearing, I think, the time when the Fed is going to fight recession and deflation. As events speed up there will be less and less middle ground -- the choice will be deflation or inflation.

INVESTMENT POSITION: Ursa Major (the big bear) remains in the box. But now he's backing off a bit -- maybe to get a stronger grip.

In the last Letter I talked again about moving into the hard currencies. The easiest way to do this is to open an account at one of the major Swiss banks such as Swiss Bank Corp., with offices in major cities such as LA, Atlanta, SF, NY, Chicago, Dallas. If you buy CDs or put money in time deposits in a foreign currency, there is no commission and no foreign tax. The catch is that the bank wants a minimum of $200,000 for time deposits in the major hard currencies.

Mark Twain Bank of St. Louis will take $20,000 as a minimum. They buy CDs (insured to $100,000) and then hedge with foreign currency futures so you get the full move on any foreign currency -- up or down.

One interesting way to go (I've written about this before) is with the ECU or European Currency Unit. This is a basket of 11 currencies, the main ones being the German mark (30.1%), the French franc (19%), the British pound (13%), the Dutch guilder (9.4%), the Italian lira (10.1%), the Belgian franc (7.98%). The current one-month return on ECUs is at the rate of 9%, and the rates go up as the time deposit stretches out in time.



This chart shows the action of the ECU since 1989. Over the past five years the ECU has risen an average of 10% a year against the dollar. Add the 9% or more in interest, and the ECU has been a heck of an investment.

But timing now looms as a very important factor. All the currencies have made huge moves against the dollar. At this point it is estimated that the dollar is now 20% cheaper than the major hard currencies on a purchasing power parity basis (i.e., in terms of what the dollar will buy). Furthermore, on an Elliott Wave count, the D-mark now counts a perfect five waves up, meaning that technically, the D-mark (and therefore all the hard currencies) have completed their bull moves and could be ready to correct (downward) against the dollar.

So my own instinct is to hold what I have in marks and francs and wait and watch for a correction. But make no mistake about it -- I think the LONG TERM direction of the dollar (like the US economy) is down.

NOTES & QUOTES: Bush openly compares Hussein with Hitler. He denounces him as a bloody "dictator," and growls that there will be no compromising. Stories of Iraqi brutality proliferate. Bush's popularity ratings slump. Anti-war demonstrations heat up across the US. Time is running out for Bush's Middle East policy. In the meantime, the US troop build-up in the Middle East continues. It "feels" to me as though Bush is preparing the nation to go to war. Latest "inside" rumor -- war right after the elections (you don't think Bush would start a war BEFORE the elections, do you ?!)

* *

I warned about it a few years ago, but I might as well repeat what I said. "First they lower taxes while simultaneously eliminating all the tax shelters. But beware -- with tax shelters gone, they'll turn around and raise taxes again." And surprise: that's exactly what they're doing. Hey George, you've lost my vote. Read my quips.

The budget package, as far as I'm concerned, was a sugar coated "lemon." The package was a sop for the Democrats ("Tax those rich guys, fairness is what's needed"), and an embarrassing cave-in for Bush. And as for budget cuts, forget it, they're not even talking about cutting the deficit, they're talking about cutting the growth rate in the deficit. My guess for the 1991 deficit -- $450 to $500 billion (which includes the S&L bailout), and gang-busters if we go to war.

* *

Treasury Secretary Brady has been putting on one of the most disgraceful performances in the history of his office. With the dollar crashing (basis Dollar Index) to new all-time lows, Brady stated (before an AMEX sponsored conference) that the dollar's collapse "has not been precipitous," and he added that in the face of the current world chaos he felt that the money markets have been

"relatively calm." Russell comment: I've said many times, "By their currencies ye shall know them." If so, then in the eyes of world currency traders, the US is sliding down the economic drain.

At the same conference our clown Secretary announced, "I do not, by the way, believe we are in a recession at this point in time." Russell comment: No doubt, after the elections Brady will announce that he's changed his mind.

* *

Quote of the Week: From Edwin Gray, former head of the Federal Home Loan Bank Board on the S&L situation: "Each day, each week, each month that passes, given the continuing failure of Congress to meet its responsibilities to the taxpayers, the cost of the thrift debacle will grow inexorably." Gray added that the cost of the S&L bailout could cost as much as $1 trillion.

* *

When Faye was in France a few months ago, she would always call me collect. The reason is that US telephone companies charge much less than foreign telephone companies for overseas calls. But get this -- the differential in US/foreign phone prices has resulted in an annual $2.4 billion addition to the US trade deficit. Is that incredible?!

* *

A few weeks ago I was talking to Alan Abelson, editor of *Barron's*. I said, "Alan, I think the best market-timer was Peter Lynch (who left his job at the huge Magellan Fund just before the bear market started in earnest)." OK, Alan, you're in New York, what's the meaning of Felix Rohatyn's recent exit from the the Municipal Assistance Corp.? Does Felix know something we don't know? At any rate, here's the latest description of Gotham from Britain's *Economist* (Gad, can this be the city I grew up in?!).

Why stay?

This is an increasingly big caveat. The quality of life in New York has fallen below the level that middle-class people are prepared to tolerate. The rich can soar above it all. They send their children to private schools, travel by yellow cab or stretch-limo, live in apartment blocks guarded by doormen and leave for beach houses in the Hamptons at weekends. But for families on middling incomes, living in New York is like living in modern Calcutta or medieval London.

The subway stations are stifling, and reek of urine. Rats gambol along the tracks. Strangers hurl abuse at each other. Beggars rattle plastic cups at hurrying would-be passengers. The panhandlers form part of the city's growing army of homeless people, many of them alcoholics or drug addicts. Nobody has thought to build public lavatories for them to use, with inevitable consequences. New York has a distinctive stench.

Education services are politicised and deteriorating. Four out of ten pupils fail to graduate from high school. More people in New York have AIDS than in any other city in the nation, both in absolute numbers and in relation to population. The city's hospitals are so understaffed that patients are given clutches of pills and told to swallow them at intervals during the day. Roads, pavements and bridges are visibly crumbling. Parks are falling into neglect.

Fear of violent crime pervades the city. Last year 712,000 serious crimes were reported, about one for every ten of New York's inhabitants. In fact, for white people the city has become [illegible]

* *

I just received a long FAX from my old pal, Harry Schultz, out of Monte Carlo. Sez Harry, "Agree with you regarding the bunk (he used a different word) coming out of DC. They don't understand the problem, but then neither do most economists and market analysts, so perhaps it's to be expected that DC wouldn't either. We're into an economic situation now that no one alive has ever seen. It's infinitely worse than '29 as then the government had no debt and government wasn't involved in the economy as a director and subsidizer and guarantor." Harry has a truly international view and has lived in more places than I even knew existed. But with FAX, it's like he's next door.

* *

In the face of the Mideast crisis, it was amazing to see the dollar dropping precipitously against the yen and the European currencies. The conclusion is obvious enough. In a crisis, investors around the world (for the first time) would rather hold German marks, Swiss francs and Japanese yen than they would American dollars.

* *

Is the American public getting fed up with presidents who don't have any strong views but instead keep looking for a consensus? After Bush's ridiculous waffling on the budget, one New England paper headlined it, "More Mush From the Wimp." Columnist George Will (*Newsweek*, Oct. 22) put it this way: ". . . Bush's inarticulateness, although often comic, is not funny. It is not an esthetic but a philosophic failing. He does not say why he wants to be there, so the pubic does not know why it should care if he gets his way. Until the public does, he won't (get his way). Congress will." In other words, Congress is running the country and the President is running around trying to figure out where he is and what he should be saying.

* *

State taxes are rising along with federal taxes. Texas used to be considered a low-tax state (Texans still pay no income tax). But this is from the *Perryman Texas Letter*: "Forget about 'no new taxes' guarantees from Williams and Richards. The chickens are coming home to roost. In Austin (state capital), schools, Human Services, Mental Health, Courts, feds won't let lawmakers wait any longer to fix these and other problems. A big tax bill WILL BE passed next year . . . at least $3 or $4 billion. The legislature will roll over the new government, overriding vetoes, if necessary, to get it done. That's what we see looking past the elections." Russell comment: And this is what I see occurring in many other states. Just what the nation needs as a recession hits and as the consumer is strapped for cash and up to his neck in debt.

* *

The spread between top-rated debt and junk bonds is at the high. So far in 1990 a total of $16 billion in corporate bonds have defaulted, largely the result of declining corporate profits, a slowing economy and corporations wallowing in unmanageable debt. The Bond Investors Assoc. estimates that $23 billion in corporate bonds could go belly up in 1990 and roughly $70 billion could go down the drain in the 1990-92 period. On top of that, many junk bonds are selling at firesale prices, with Macy's bonds going to 50 cents on the dollar and the Trump Taj Mahal bonds going for 30 cents on the dollar. Ominously, the life insurance companies own $60 billion of the $200 billion outstanding in junk bonds. Even more ominously, that $60 billion is equal to the total capital of all life insurance companies.

* *

Honest, there's a restaurant in LA called Kosher Nostra. And no kidding, there's another called Ghengis Cohen. I've eaten at Ghengis (Chinese), and it's outstanding. More comic relief: John McGinley (*Technical Trends*) talks about the drunk who saw a billboard which read, "Drink Canada Dry." So he moved there.

* *

The wheat crop in the US, Canada and all over the Northern Hemisphere has been of bumper proportions. That should have been good. It wasn't, at least, it wasn't for the farmers. Wheat prices at the elevators were $3.71 a bushel back in January. By last August that had dropped to $2. At that price many farmers can't make a living. This year the subsidy is $4 per bushel, but only on the first 23 bushels out of each acre. This means that many farmers will get the market price for only half their crop. On top of that, with gasoline prices up, farmers are facing a double squeeze. The result, an exodus from the farms.

* *

I keep asking Faye, my lawyer wife (who's now working at a law firm), what the nation is going to do with all the new lawyers who are graduating from law schools (by the year 2000 there will be one

million lawyers in the the US). The answer is coming in, and the answer is that many of the new graduates simply won't be employed. *USA Today* (Oct. 16) had a feature article on the lawyer situation, and they cite the case of one lawyer who was interviewing a student for placement later in the year. The lawyer returns to his office to find that he, along with 15 other of his fellow lawyers, has been laid off. The word: real estate and corporate law are slow -- bankruptcy and litigation law is where it's happening.

* *

New York magazine (Oct. 8) talks about the astounding slide in the big city banks. Here's a quote: "By the late seventies, global inflation had begun to fill bank coffers with billions of dollar in fresh deposits, creating huge new lending pressures. First came 'petroleum recycling' and loans to the Third World. After that came loans to oil and gas wildcatters, loans to real estate developers, loans financing the world of leveraged-buy-out promoters. And then, loans that initially looked like can't-miss deals slipped, one after another, into arrears and finally default." Russell comment: NY's four largest banks, Citibank, Chase, Chemical, Manufacturers Hanover, hold a total of $307 billion in all kinds of loans. Ten years ago these four dominated in almost every market worldwide. Today not one of the four makes *Financial World's* list of top 10 international banks.

* *

What, you too, California? Out here people firmly believe that people on the East Coast are jealous of California -- that they even hate us ("all those damn swimming pools and surfboards"). *Forbes* (October 29) has as its cover story, "California, the Fading Boom." The jist of the story is that red tape, traffic jams, smog, high-priced real estate and plain stupidity on the part of its regulators and politicians have spoiled it for businesses and citizens alike. The article concludes, "While the industrial base collapses, California politicians fiddle . . . There's an arrogance in California, born of success that came easy. Arrogance cometh before a fall."

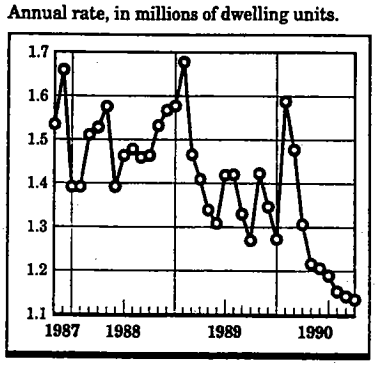
Russell comment: I've said for years that with the high taxes, the rotten commuting and the overcrowding and smog, you've got to really love California to live here. I happen to love it. But frankly, I don't see how California is going to bypass the troubles that the rest of the country is suffering from. Furthermore, real estate prices here are still far, far above the average of most other states. California's Achilles heel is its real estate and its huge defense industry.

* *

The banks are getting very skittish about lending. In fact, an analyst from Sanford Bernstein stated, "Washington has, by now, gotten bankers so scared about making bad loans that no one wants to make any loans at all." Actually, it is hard for the average person to get a bank loan now, and even car loans are becoming difficult to obtain. As the squeeze tightens, housing starts decline. The eight months of decline in 1990 is the longest string since the records have been kept. Actually, as this chart shows, the decline began in January 1989.

Housing Starts

Annual rate, in millions of dwelling units.



* *

Not everyone loses in the Mideast crisis. It is estimated that with the big rise in the price of crude oil Saudi Arabia is receiving an extra $6 billion a month. And with US oil profits going up, even the US government is profiting -- probably to the tune of an extra $5 billion in taxes this year.

* *

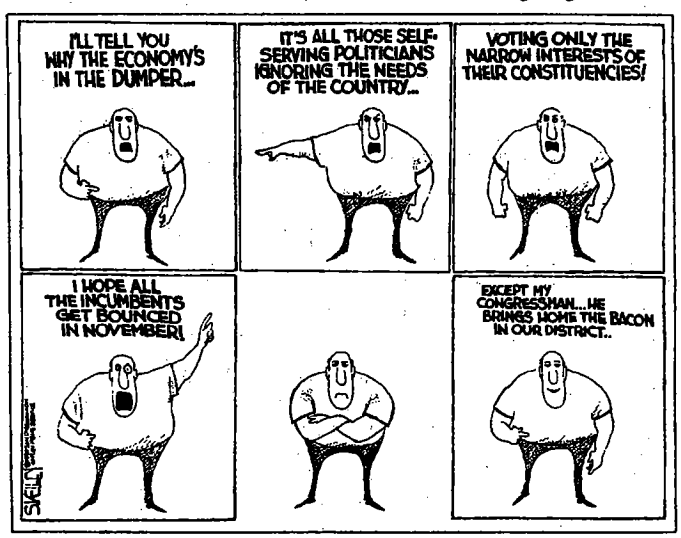
There are a lot of men's magazine out now, probably too many. They all seem to have one thing in common -- Japan bashing. In the September *Details* an article states: "The Japanese are spoiling it for everybody. They work too hard. They eat whale. They take trains and send all their cars here. They don't even enjoy baseball, really." And *FYI* carries an article entitled, "Ships My Father Sank," which deals with Japanese ships sunk during WWII.

* *

This from Don Morris, my old schoolmate, who spent many years in the CIA (*Donald Morris Newsletter*, PO Box 19909, Houston, TX 77224): "Hussein is a ranting dispenser of bluster and bluff. He is, however, rash, ruthless and unpredictable, and it is well within the realm of possibility that he might opt for open conflict, no matter what the cost to Iraq, rather than meekly quitting Kuwait . . . A further indication comes from Israel -- the big IF itself. Iraq has always been in the forefront of Israel's most implacable foes. Israel regards Iraq with the beadiest of eyes, and if Hussein remains in power and continues his nuclear weaponry program, Israel will sooner than later be forced to take action . . . If Iraq attacked Israel with missiles or aircraft, Israel would remove Baghdad from the map. And, as Hussein well knows, Israel has the capacity to do just that . . . Israel, moreover, has a low opinion of Iraqi military power. The American media only recently started to scale down its initial '1 million battle-hardened men, 5,000 tanks, 550 jet fighters' goblin; Israel did so long ago. Of the 1 million Iraqi men, at most 100,000 are battle-hardened professionals (and even these with no experience in mobile warfare), about 50 competent, French-trained, pilots to man the aircraft. There is, virtually no air defense, in the sense of an integrated, coordinated system . . . The Israeli military (with more reason to know than we do) regards Iraqi forces as a paper tiger -- the worst in the Mideast, which America has no reason to fear."

* *

The voters rant and rave against the incumbents, but when the chips are down they tend to vote for their own, selfish pocketbooks. San Diego's own Steve Kelly (who's now doubling as a stand-up comedian) offers this view of what's going on ---


I'LL TELL YOU WHY THE ECONOMY'S IN THE DUMPER...
IT'S ALL THOSE SELF-SERVING POLITICIANS IGNORING THE NEEDS OF THE COUNTRY...
VOTING ONLY THE NARROW INTERESTS OF THEIR CONSTITUENCIES!
I HOPE ALL THE INCUMBENTS GET BOUNCED IN NOVEMBER!
EXCEPT MY CONGRESSMAN...HE BRINGS HOME THE BACON IN OUR DISTRICT..
STEVE KELLY

* *

Florida deflation: Donald Trump will auction off 45 condominiums at his "fabled" Trump Plaza of the Palm Beaches in Florida. Prices will begin at 50% LESS than their current asking price. The sale is thought to be a result of pressure from Marine Midland Bank which holds a $27 million mortgage on the property, a mortgage that came due a week ago.

* *

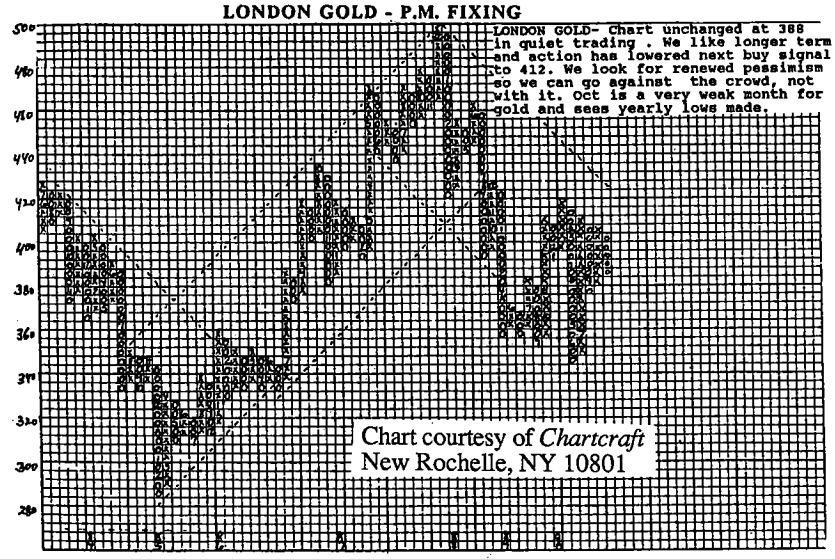
The state of Texas (last year) passed a low levying a TAX of $3.50 a gram on marijuana and $200 a gram for cocaine. And don't laugh, so far the state has collected over $40,000 in taxes from drug dealers who've been arrested without having the stamps. The

stamps are beasties -- they have the word "Drugs" printed at the top and the words "Death" and "Taxes" printed at the bottom.

* *

If there's anyone who reads more than I do I guess it's Ed Hyman of *C.J. Lawrence* . Anyway, in Ed's latest mailing, he published this chart with the comment, "These guys have no shame. Look at these spending increases budgeted for 1991." I'm looking Ed, and I'm getting sick.

Believe me, Bush has made a monumental mistake caving in on his "No new taxes" promises. This give-in to the Democrats will return to haunt him. I can almost guarantee at this point that Bush will not get a second term.


LONDON GOLD - P.M. FIXING
LONDON GOLD- Chart unchanged at 388 in quiet trading . We like longer term and action has lowered next buy signal to 412. We look for renewed pessimism so we can go against the crowd, not with it. Oct is a very weak month for gold and seas yearly lows made.
Chart courtesy of *Chartcraft*
New Rochelle, NY 10801

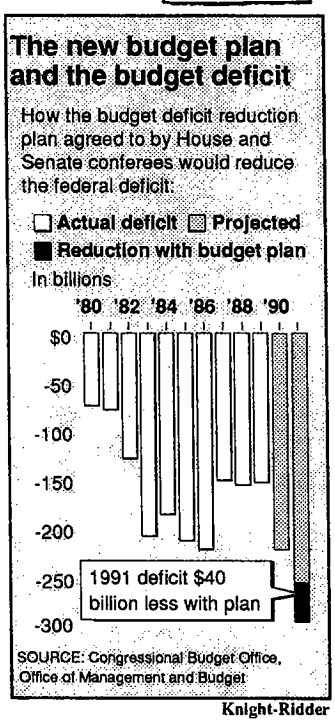
Proposed '91 Spending Levels

Program area	*In fiscal '91 (billions)*	*Change from '90*	
National defense	$297.0	−1.0%	
International affairs	17.4	+12.3	←
Science, space, tech.	15.2	+ 7.0	←
Energy	4.0	+21.2	
Natural resource, environ.	18.9	+ 6.2	←
Agriculture	14.1	+12.8	←
Commerce, housing credit	87.0	+15.0	←
Transportation	30.7	+ 4.1	←
Community, regional devel.	8.6	+ 3.6	
Education	41.8	+ 9.1	←
Health	65.5	+12.5	←
Medicare	104.9	+ 8.3	
Income security	160.5	+ 8.1	
Social Security	266.3	+ 7.1	
Veterans benefits & svcs	31.7	+ 7.8	
Administration of justice	12.3	+17.1	←
General government	11.7	+10.4	←

Sources: House-Senate conference, Office of Management & Budget

LATE FLASH: The total addition to the federal deficit for the last 12 months is a **record $394.3 billion** (this is the REAL, HONEST-TO-GOODNESS federal deficit). I'm betting the deficit is going to hit $500 billion next year!

You think our Washington representatives have "done something" about the deficits? This chart shows you what they have done. They clipped a bit off the coming deficit. Dream on, you optimists, they're not moving to eliminate the deficit -- they're just reducing the rate of growth.



SECOND FLASH: Just got latest Prechter (Elliott Wave) report. Bob says, **"The stock market is now approaching one of the most important wave junctures it ever creates, the end of a 'wave 2' rally in a five wave decline. Why? Because the next decline will be wave (3), the most dramatic wave in a five-wave sequence."** (Russell note: this fits in with Peter Eliades' cycle warning regarding Nov 11-14 cycle peak -- so watch out!)

GOLD: Gold is interesting here. It's indecisive. It's not going up, and it's not falling apart. In that, it is pretty much reflecting the indecision that must be on the mind of every economist and market observer. Are we going to have deflation, inflation, a bit of both or first one and then the other? I wish I had the final answer, but I don't.

This point & figure chart shows gold consolidating, backing and filling within the 348-420 trading range. Currently, gold is trading in the upper part of that trading range.

A history of gold indicates that the metal usually hits a low in the fourth quarter of each year (October is the favored month), and gold then tends to rally into the first quarter.

But we're not holding gold for quick profits, so I don't know if any of the above really matters -- I know it doesn't matter to me.

A friend of mine told me he had 100 gold coins that were given to him by his father before he died. He doesn't know where his father got the coins; he thinks they were handed down from his grandfather. This fellow says he'll never sell the coins unless he's starving. He'll give them to his son.

That one interesting facet of holding gold coins. After ten or twenty years they become sort of "anonymous," you forget where you got them and what you paid for them and everything else about them except that you own 'em.

Real money isn't like old soldiers. Real money doesn't just "fade away."

LATE NOTES: The Averages are in the process of testing the bear market lows of **2365.10** for the D-J Industrials and **821.93** for the Transports. Also, watch the bear market lows of **295.46** for the S&P 500 and **162.20** for the NYSE Composite. If any of these are penetrated, the odds are that the bear market leg will continue to the downside. In the vast majority of cases, a primary penetration by one average is followed by the other averages. So far, the rallying action has been mostly the Dow stocks with breadth lagging or uninspired. The market, taken as a mass is "heavy." And the financial stocks (banks, insurance companies) have been horrendous actors. Question: what are the financial stocks trying to tell us?

Cycle expert Peter Eliades (*Stockmarket Cycles*), points to one of his most reliable cycles as hitting its peak around November 11-14. If so, the market might rally into mid-November prior to a renewed slump. On the other hand, a particularly weak market might act badly into the November 11-14 period -- and from there go down in dead earnest.

NEXT MAILING: November 14